

CITY OF LEOTI, KANSAS

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Leoti, Kansas

We have audited the accompanying financial statements of the City of Leoti, Kansas, as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, the City of Leoti, Kansas, prepares its financial statements using accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Further, in our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Leoti, Kansas, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City of Leoti, Kansas, as of December 31, 2011, and their respective cash receipts and expenditures, and budgetary results for the year then ended, on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

September 18, 2012

CITY OF LEOTI, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
Governmental funds:		
General	\$ 516,560	\$ -
Special revenue funds:		
Ambulance and fire equipment	173,859	-
Special highway	80,042	-
Special parks and recreation	2,466	-
Nonbudgeted special revenue funds:		
Technology equipment reserve	83	-
Fire equipment reserve	1,064	-
Equipment reserve	107,485	-
Capital improvement Fire Department	3,335	-
Capital improvement General	45,000	-
Capital project funds:		
KLINK Project KA084801 Hwy 25	-	-
KLINK Project KA049201 Hwy 96	-	-
Proprietary funds:		
Enterprise funds - budgeted:		
Water operating	178,954	-
Sanitation operating	70,930	-
Sewer operating	135,487	-
Stormwater operating	16,525	-
Enterprise funds - nonbudgeted:		
Water reserve	148,098	-
Water bond and interest	-	-
Sanitation reserve	107,863	-
Sewer reserve	90,000	-
Total primary government (excluding agency funds)	<u>\$ 1,677,751</u>	<u>\$ -</u>
Composition of cash balance:		
Cash on hand		
Petty cash account		
General checking account		
Money market account		
Certificates of deposit		
Total primary government		
Less agency funds		
Total cash		

The accompanying notes are an integral part of the financial statements.

Cash receipts	Expenditures	Ending unencumbered cash balance (deficit)	Add outstanding encumbrances and accounts payable	Ending cash balance (deficit)
\$ 771,052	\$ 1,030,840	\$ 256,772	\$ 20,591	\$ 277,363
25,647	-	199,506	-	199,506
37,180	-	117,222	-	117,222
-	-	2,466	-	2,466
-	-	83	-	83
-	-	1,064	-	1,064
315,000	-	422,485	-	422,485
-	-	3,335	-	3,335
172,123	195,898	21,225	-	21,225
24,404	25,004	(600)	-	(600)
2,929	2,929	-	-	-
460,185	376,200	262,939	6,507	269,446
129,131	112,133	87,928	1,380	89,308
178,018	124,427	189,078	3,611	192,689
8,937	1,151	24,311	-	24,311
12,000	-	160,098	-	160,098
96,241	46,241	50,000	-	50,000
-	-	107,863	-	107,863
-	-	90,000	-	90,000
<u>\$ 2,232,847</u>	<u>\$ 1,914,823</u>	<u>\$ 1,995,775</u>	<u>\$ 32,089</u>	<u>\$ 2,027,864</u>

\$ 200
1,300
72,554
1,482,548
<u>500,000</u>
2,056,602
<u>(28,737)</u>
<u>\$ 2,027,865</u>

CITY OF LEOTI, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 1,325,796	\$ -	\$ 1,325,796	\$ 1,030,840	\$ 294,956
Special revenue funds:					
Ambulance and fire equipment	200,000	-	200,000	-	200,000
Special highway	117,000	-	117,000	-	117,000
Special parks and recreation	- 3,900	-	3,900	-	3,900
Enterprise funds:					
Water operating	378,241	-	378,241	376,200	2,041
Sanitation operating	151,000	-	151,000	112,133	38,867
Sewer operating	229,000	-	229,000	124,427	104,573
Stormwater operating	25,500	-	25,500	1,151	24,349
Total	\$ 2,430,437	\$ -	\$ 2,430,437	\$ 1,644,751	\$ 785,686

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 357,919	\$ 376,648	\$ 373,965	\$ 2,683
Delinquent tax	3,318	17,356	5,657	11,699
Motor vehicle tax	91,112	77,606	83,638	(6,032)
Recreation vehicle tax	789	758	709	49
16/20M vehicle tax	2,981	2,687	2,979	(292)
Shared revenue:				
Local alcoholic liquor	720	690	-	690
Local sales tax	93,152	106,565	90,500	16,065
Compensating use tax	21,114	29,352	25,000	4,352
Licenses, fees, fines and permits:				
Franchise fees	132,285	126,543	120,000	6,543
Fines and penalties	1,907	840	12,000	(11,160)
Other licenses, fees, and permits	3,411	2,241	2,500	(259)
Interest:				
Interest on idle funds	9,683	8,071	4,800	3,271
Other:				
County fire contract	30,000	10,000	25,000	(15,000)
Miscellaneous	15,689	11,695	8,400	3,295
Total cash receipts	764,080	771,052	\$ 755,148	\$ 15,904
Expenditures:				
General government				
Personal services	203,890	146,117	\$ 214,000	\$ 67,883
Contractual services	103,766	91,848	125,000	33,152
Commodities	26,158	36,080	30,000	(6,080)
Capital outlay	36,857	9,315	10,000	685
Total general government	370,671	283,360	379,000	95,640
Appropriations				
Airport	2,100	1,400	1,400	-
Cemetery	2,100	1,400	1,400	-
WCED	30,000	32,500	30,000	(2,500)
Golf course	17,500	17,496	17,500	4
Total appropriations	51,700	52,796	50,300	(2,496)
Public safety				
Law enforcement agreement	87,000	94,250	87,000	(7,250)

CITY OF LEOTI, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET (CONTINUED)

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Expenditures (continued):				
Public safety (continued)				
Fire department				
Personal services	\$ 7,680	\$ 7,789	\$ 8,500	\$ 711
Contractual services	31,116	28,777	35,000	6,223
Commodities	42,854	34,525	37,000	2,475
Capital outlay	19,539	9,800	-	(9,800)
Debt service:				
Principal	13,268	13,882	13,882	-
Interest	1,927	1,314	1,314	-
Total fire department	116,384	96,087	95,696	(391)
Total public safety	203,384	190,337	182,696	(7,641)
Public works				
Personal services	8,580	45,808	38,000	(7,808)
Contractual services	23,680	57,421	140,000	82,579
Commodities	31,003	36,903	15,000	(21,903)
Capital outlay	967	-	-	-
Total public works	64,230	140,132	193,000	52,868
Culture and recreation - parks				
Personal services	15,000	16,250	15,000	(1,250)
Contractual services	-	-	1,000	1,000
Total culture and recreation - parks	15,000	16,250	16,000	(250)
Municipal court				
Personal services	15,350	9,412	10,300	888
Contractual services	11,726	23,431	3,000	(20,431)
Commodities	-	122	500	378
Total municipal court	27,076	32,965	13,800	(19,165)
Transfer to equipment reserve	-	315,000	491,000	176,000
Total expenditures	732,061	1,030,840	\$ 1,325,796	\$ 294,956
Receipts over (under) expenditures	32,019	(259,788)		
Unencumbered cash, beginning of year	484,541	516,560	\$ 570,648	\$ (54,088)
Unencumbered cash, end of year	\$ 516,560	\$ 256,772	\$ -	\$ 256,772

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

AMBULANCE AND FIRE EQUIPMENT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 20,565	\$ 20,026	\$ 19,897	\$ 129
Delinquent tax	190	962	325	637
Motor vehicle tax	5,227	4,460	4,806	(346)
Recreation vehicle tax	46	44	41	3
16/20M vehicle tax	169	155	171	(16)
Total cash receipts	26,197	25,647	<u>\$ 25,240</u>	<u>\$ 407</u>
Expenditures:				
General government:				
Capital outlay	-	-	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Receipts over (under) expenditures	26,197	25,647		
Unencumbered cash, beginning of year	147,662	173,859	<u>\$ 174,760</u>	<u>\$ (901)</u>
Unencumbered cash, end of year	<u>\$ 173,859</u>	<u>\$ 199,506</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

SPECIAL HIGHWAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Shared revenue	\$ 35,634	\$ 37,180	\$ 37,250	\$ (70)
Expenditures:				
Highways and streets:				
Contractual services	-	-	\$ 70,000	\$ 70,000
Commodities	-	-	47,000	47,000
Total expenditures	-	-	\$ 117,000	\$ 117,000
Receipts over (under) expenditures	35,634	37,180		
Unencumbered cash, beginning of year	44,408	80,042	\$ 79,777	\$ 265
Unencumbered cash, end of year	\$ 80,042	\$ 117,222	\$ 27	\$ 117,195

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

SPECIAL PARKS AND RECREATION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Shared revenue	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Culture and recreation:				
Contractual services	1,500	-	\$ -	\$ -
Capital outlay	-	-	3,900	3,900
Total expenditures	1,500	-	\$ 3,900	\$ 3,900
Receipts over (under) expenditures	(1,500)	-		
Unencumbered cash, beginning of year	3,966	2,466	\$ 3,966	\$ (1,500)
Unencumbered cash, end of year	\$ 2,466	\$ 2,466	\$ 66	\$ 2,400

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

WATER OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Charges for service	\$ 323,969	\$ 440,765	\$ 312,000	\$ 128,765
Penalties	3,682	5,960	3,600	2,360
Coin box sales and connection fees	6,392	7,150	5,800	1,350
Miscellaneous	7,154	6,310	-	6,310
Interest	3,508	-	-	-
Total cash receipts	<u>344,705</u>	<u>460,185</u>	<u>\$ 321,400</u>	<u>\$ 138,785</u>
Expenditures:				
Distribution:				
Personal services	36,846	110,758	\$ 79,000	\$ (31,758)
Contractual services	94,439	94,865	75,000	(19,865)
Commodities	17,728	43,350	30,000	(13,350)
Capital outlay	5,133	18,986	64,000	45,014
Transfer to water reserve	-	12,000	84,000	72,000
Transfer to water bond and interest	45,736	96,241	46,241	(50,000)
Total expenditures	<u>199,882</u>	<u>376,200</u>	<u>\$ 378,241</u>	<u>\$ 2,041</u>
Receipts over (under) expenditures	144,823	83,985		
Unencumbered cash, beginning of year	<u>34,131</u>	<u>178,954</u>	<u>\$ 57,254</u>	<u>\$ 121,700</u>
Unencumbered cash, end of year	<u>\$ 178,954</u>	<u>\$ 262,939</u>	<u>\$ 413</u>	<u>\$ 262,526</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

SANITATION OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Sanitation collection fees	\$ 111,237	\$ 113,100	\$ 130,000	\$ (16,900)
Yardwaste collection fees	8,747	9,016	9,000	16
Penalties	1,743	1,678	1,500	178
Containers sold	1,485	5,317	1,000	4,317
Interest	1,067	-	-	-
Miscellaneous	386	20	-	20
Total cash receipts	<u>124,665</u>	<u>129,131</u>	<u>\$ 141,500</u>	<u>\$ (12,369)</u>
Expenditures:				
Personal services	67,544	56,492	\$ 91,000	\$ 34,508
Contractual services	16,972	28,085	30,000	1,915
Commodities	16,219	27,189	30,000	2,811
Capital outlay	-	367	-	(367)
Total expenditures	<u>100,735</u>	<u>112,133</u>	<u>\$ 151,000</u>	<u>\$ 38,867</u>
Receipts over (under) expenditures	23,930	16,998		
Unencumbered cash, beginning of year	<u>47,000</u>	<u>70,930</u>	<u>\$ 19,363</u>	<u>\$ 51,567</u>
Unencumbered cash, end of year	<u>\$ 70,930</u>	<u>\$ 87,928</u>	<u>\$ 9,863</u>	<u>\$ 78,065</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

SEWER OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Sewer fees	\$ 119,539	\$ 175,209	\$ 135,000	\$ 40,209
Penalties	1,636	2,809	1,600	1,209
Interest	1,274	-	-	-
Miscellaneous	248	-	-	-
Total cash receipts	<u>122,697</u>	<u>178,018</u>	<u>\$ 136,600</u>	<u>\$ 41,418</u>
Expenditures:				
Personal services	59,868	63,616	\$ 76,000	\$ 12,384
Contractual services	21,558	29,918	30,000	82
Commodities	28,558	18,571	18,000	(571)
Capital outlay	967	12,322	105,000	92,678
Total expenditures	<u>110,951</u>	<u>124,427</u>	<u>\$ 229,000</u>	<u>\$ 104,573</u>
Receipts over (under) expenditures	11,746	53,591		
Unencumbered cash, beginning of year	<u>123,741</u>	<u>135,487</u>	<u>\$ 92,800</u>	<u>\$ 42,687</u>
Unencumbered cash, end of year	<u>\$ 135,487</u>	<u>\$ 189,078</u>	<u>\$ 400</u>	<u>\$ 188,678</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

STORMWATER OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Stormwater fees	\$ 8,733	\$ 8,807	\$ 10,290	\$ (1,483)
Penalties	129	130	140	(10)
Total cash receipts	8,862	8,937	\$ 10,430	\$ (1,493)
Expenditures:				
Contractual services	74	1,151	\$ 6,500	\$ 5,349
Commodities	-	-	4,000	4,000
Capital outlay	-	-	15,000	15,000
Total expenditures	74	1,151	\$ 25,500	\$ 24,349
Receipts over (under) expenditures	8,788	7,786		
Unencumbered cash, beginning of year	7,737	16,525	\$ 15,153	\$ 1,372
Unencumbered cash, end of year	\$ 16,525	\$ 24,311	\$ 83	\$ 24,228

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES ALL NON-BUDGETED FUNDS

Year ended December 31, 2011

	Special revenue funds				
	Technology equipment reserve	Fire equipment reserve	Equipment reserve	Capital improvement fire department	Capital improvement General
Cash receipts:					
Grant income	\$ -	\$ -	\$ -	\$ -	\$ -
State claim reimbursements	-	-	-	-	172,123
Transfer from:					
Water operating	-	-	-	-	-
General	-	-	315,000	-	-
Total cash receipts	-	-	315,000	-	172,123
Expenditures:					
Contractual services	-	-	-	-	-
Capital outlay	-	-	-	-	195,898
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	-	-	-	195,898
Receipts over (under) expenditures	-	-	315,000	-	(23,775)
Unencumbered cash, beginning of year	83	1,064	107,485	3,335	45,000
Unencumbered cash, end of year	<u>\$ 83</u>	<u>\$ 1,064</u>	<u>\$ 422,485</u>	<u>\$ 3,335</u>	<u>\$ 21,225</u>

The accompanying notes are an integral
part of the financial statements.

Capital project funds		Enterprise funds				Total
KLINK project KA084801 Hwy 25	KLINK project KA049201 Hwy 96	Water Reserve	Water bond and interest	Sanitation reserve	Sewer reserve	
\$ 24,404	\$ 2,929	\$ -	\$ -	\$ -	\$ -	\$ 27,333
-	-	-	-	-	-	172,123
-	-	12,000	96,241	-	-	108,241
-	-	-	-	-	-	315,000
<u>24,404</u>	<u>2,929</u>	<u>12,000</u>	<u>96,241</u>	<u>-</u>	<u>-</u>	<u>622,697</u>
25,004	2,929	-	-	-	-	27,933
-	-	-	-	-	-	195,898
-	-	-	10,774	-	-	10,774
-	-	-	35,467	-	-	35,467
<u>25,004</u>	<u>2,929</u>	<u>-</u>	<u>46,241</u>	<u>-</u>	<u>-</u>	<u>270,072</u>
(600)	-	12,000	50,000	-	-	352,625
-	-	148,098	-	107,863	90,000	502,928
<u>\$ (600)</u>	<u>\$ -</u>	<u>\$ 160,098</u>	<u>\$ 50,000</u>	<u>\$ 107,863</u>	<u>\$ 90,000</u>	<u>\$ 855,553</u>

CITY OF LEOTI, KANSAS
LEOTI, KANSAS

AGENCY FUNDS

SUMMARY OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning cash balance</u>	<u>Cash receipts</u>	<u>Cash disbursements</u>	<u>Ending cash balance</u>
Agency funds:				
Landfill fund	\$ 7,854	\$ 72,389	\$ 76,031	\$ 4,212
Municipal court	<u>11,470</u>	<u>15,218</u>	<u>2,163</u>	<u>24,525</u>
Total agency funds	<u>\$ 19,324</u>	<u>\$ 87,607</u>	<u>\$ 78,194</u>	<u>\$ 28,737</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF LEOTI, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are representations of the City's management, which is responsible for their integrity and objectivity. The amounts shown for 2010 in the accompanying financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not included to present all information necessary for a fair presentation in accordance with the basis of accounting as described below.

1. Financial reporting entity

The City of Leoti is a municipal corporation governed by an elected mayor and five-member council. The scope of the entity for financial reporting purposes is defined as those funds for which the governing body of the City has financial accountability. Financial accountability includes budgetary authority and fiscal management responsibility. Budgetary authority is defined as authority for final approval of budgetary appropriations and revisions. Fiscal management responsibility is control of the collection and disbursement of funds. These financial statements include all funds included in the City's legally adopted budget and funds controlled or administered by City employees in their capacity as City employees.

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity. City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following funds comprise the financial activities of the City for the year of 2011.

GOVERNMENTAL FUNDS

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds

These funds are established to account for the proceeds of specific revenue sources other than special assessments, trust funds, or major capital projects that are restricted by law or administrative action to expenditure for specified purposes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Capital Project Funds

These funds are established to account for cash resources segregated for the acquisition and improvement of major capital facilities.

PROPRIETARY FUNDS

Enterprise Funds

These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY TYPE FUNDS

Agency Funds

These funds account for assets held by the City as agent for individuals, private organizations, and other units of government.

3. Statutory basis of accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure is charged in the fund from which the transfer is made.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

4. Departure from accounting principles generally accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, utility reserve funds, and the following special revenue funds:

Technology Equipment Reserve Fund
Fire Equipment Reserve Fund
Equipment Reserve Fund
Capital Improvement Fire Department Fund
Capital Improvement General Fund

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

6. Cash and investments

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in interest-bearing deposits and disclosed as part of the City's deposits.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Ad valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November 1 and a lien for all taxes attaches on that same date until the taxes are paid. One-half of the property taxes is due December 20 and distributed to the City by January 20, and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

8. Pension plan

Substantially all full-time employees are members of the State of Kansas Public Employees' Retirement System (KPERs) which is a cost-sharing multiple-employer state-wide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

9. Section 457 deferred compensation plan

The City offers a Section 457 deferred compensation plan to all employees on a voluntary basis. The City does not contribute to the plan and the plan is administered by a third party.

10. Other post employment benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

11. Section 125 plan

The City offers a section 125 flexible benefit plan to employees electing to participate. It is used for health insurance premiums and medical and dependent care reimbursement. The plan is administered by a third party.

12. Compensated absences

The City's policy allows vacation time to accumulate to 120 hours. Personal leave must be taken prior to employee termination. Sick leave may be accumulated up to 360 hours, but unused sick leave is not paid upon termination or resignation. The City does not accrue amounts for compensated absences, as the amounts are not material in relation to the financial statements taken as a whole and these costs are expensed as paid.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover health, property and liability claims. The City participates in a public entity risk pool to cover worker's compensation. There have been no significant reductions in coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

B. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the City.

The cash basis law provided by K.S.A. 10-1113 prohibits the creation of indebtedness in any fund in excess of available monies in that fund. Although, as indicated in the financial statements, the KLINK Hwy 25 Fund has a cash deficit of \$600, according to K.S.A. 12-1664, the City is not prohibited from financing the federal or state share of a local program from current funds if available.

C. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policy, however it does follow state statutes.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks to provide an acceptable rate of return on funds.

K.S.A. 9-1402 requires the City's deposits in financial institutions to be entirely covered by federal depository insurance, by a corporate surety bond, or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. Additionally, K.S.A. 10-131(a)(6) authorizes the City to invest proceeds of bonds in obligations of the Federal National Mortgage Association, Federal Home Loan Banks, or the Federal Home Loan Mortgage Corporation. State statutes place no limit on the amount the City may invest in any one issuer.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$2,056,401. The bank balance was \$2,166,986. Of the bank balance, \$500,732 was covered by FDIC insurance; \$1,666,254 was collateralized by pledged securities held under joint custody receipts issued by third-party bank in the City's name.

D. CAPITAL PROJECTS

As of December 31, 2011, the City had commitments with respect to unfinished capital projects to be funded by Kansas Department of Transportation matching grant with the State paying 100%, up to a maximum of \$700,000 per project, and the City paying 100% of any right-of-way and utility costs as well as any costs in excess of \$700,000 per project. The City's projected costs for the Highway 25 and Highway 96 projects are \$54,300 and \$45,286, respectively, which have substantially been paid.

The City has also entered into agreements for lift station replacement and rehabilitation of the wastewater treatment system. As of December 31, 2011, the City has paid \$195,898. The project authorizations at that date totaled \$847,822. This project is being financed by the Kansas Department of Health and Environment (KDHE).

E. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest paid</u>
General obligation bonds:					
Fire truck issued November 25, 2002 in the amount of \$119,500 at interest rates of 4.625% maturing November 27, 2012	\$ 28,401	\$ -	\$ 13,882	\$ 14,519	\$ 1,314
Water improvement issued April 4, 2005 in the amount of \$873,400 at interest rates of 4.25% maturing April 7, 2045	<u>834,522</u>	<u>-</u>	<u>10,774</u>	<u>823,748</u>	<u>35,467</u>
	862,923	-	24,656	838,267	36,781
KDHE Loan Issued March 11, 2011 In the amount of \$444,000 At interest rate of 3.06% Maturing March 1, 2033	<u>-</u>	<u>172,123</u>	<u>-</u>	<u>172,123</u>	<u>-</u>
Total long-term debt	<u>\$ 862,923</u>	<u>\$ 172,123</u>	<u>\$ 24,656</u>	<u>\$ 1,010,390</u>	<u>\$ 36,781</u>

Current maturities of general obligation bonds and interest for the next five years and every five years thereafter through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 25,751	\$ 35,681	\$ 61,432
2013	11,709	34,532	46,241
2014	12,206	34,034	46,240
2015	12,725	33,516	46,241
2016	13,266	32,975	46,241
2017-2021	75,283	187,205	262,488
2022-2026	92,699	138,505	231,204
2027-2031	114,144	117,061	231,205
2032-2036	140,552	90,652	231,204
2037-2041	173,068	58,137	231,205
2042-2045	<u>166,864</u>	<u>18,098</u>	<u>184,962</u>
Total	<u>\$ 838,267</u>	<u>\$ 780,396</u>	<u>\$ 1,618,663</u>

The KDHE loan amortization will begin the earlier of two years after receipt of the first disbursement of the loan or one year after completion of the project.

F. DEFINED BENEFIT PENSION PLAN

Plan description. The City of Leoti, Kansas, contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% for Tier 1 employees (generally active members prior to July 1, 2009) and 6% for Tier 2 (generally active members on or after July 1, 2009) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The KPERS employer rate established by statute for the period January through December 2011 was 7.74%, except for the period from April 1, 2011 through June 30, 2011, when the rate was reduced to 6.74%. The City of Leoti's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$20,006, \$17,410, and \$13,886, respectively, equal to the required contributions for each year.

G. INTERFUND TRANSACTIONS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory or other authority</u>	<u>Amount</u>
General	Equipment Reserve	K.S.A. 19-119	\$ 315,000
Water Operating	Water Reserve	K.S.A. 12-825d	12,000
Water Operating	Water Bond and Interest	K.S.A. 10-1204	<u>96,241</u>
			<u>\$ 423,241</u>

H. DEBT LIMITATION

The amount of long-term debt that can be incurred by the City is limited by K.S.A. 10-308. The total outstanding bonded indebtedness during a year can be no greater than 30% of the assessed value of taxable tangible property as certified to the County Clerk on the preceding August 25. This limitation is modified by K.S.A. 10-309 which exempts bonds issued for street, water or sewer improvements. As of December 31, 2011, the amount of outstanding bonded indebtedness, net of exempt bonds, was equal to .25% of property assessments as of August 25, 2011.

I. PUBLIC ENTITY RISK POOLS

The City is a member of the Kansas Municipal Insurance Trust (KMIT), a group funded pool for workers compensation coverage which was formed through the Kansas Municipal Group-Funded Pool Act, K.S.A. 12-1216, et seq. This is a public entity risk pool which operates as a common risk management and insurance program for member cities through the League of Kansas Municipalities. The City pays an annual contribution to the Kansas Municipal Insurance Trust as determined by the twelve-member Board of Trustees based upon experience modification factors, payroll audits and any other bases the Board considers appropriate. It is not possible to estimate the maximum contributions which could be required. KMIT covers claims up to \$500,000 each and aggregate excess reinsurance provides aggregate coverage up to \$3,000,000. Except for required contributions, no member can be held responsible for any claims made against any other member.

J. COMMITMENTS

The City has approved a plan for the construction of a new water treatment plant, water transmission mains and well improvements. The estimated cost of the project is \$3,072,694, which will be financed through the Kansas Public Water Supply Loan Fund at an estimated interest rate of 2.3%. This project qualifies for principal forgiveness up to 30% of the final loan amount, which would result in semi-annual payments of approximately \$67,400 for 20 years on a loan of approximately \$2,150,000.

The wastewater treatment system will be completed in 2012. The final estimated cost is approximately \$900,000, of which up to \$296,000 will be forgiven in accordance with procedures of the Kansas Water Pollution Control Revolving Loan Fund, \$444,000 will be financed with KDHE, and the remaining \$160,000 will be paid by the City.

K. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 18, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.